

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Mackinac Island	County Mackinac
Fiscal Year End 3/31/2006	Opinion Date 7/19/2006	Date Audit Report Submitted to State 08/31/2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

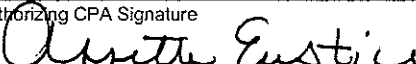
YES NO

Check each applicable box below. (See instructions for further detail)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number 231-627-3143		
Street Address 902 S. Huron Street, PO Box 250		City Cheboygan	State MI	Zip 49721
Authorizing CPA Signature 		Printed Name Annette Eustice		License Number 1101019667

**CITY OF MACKINAC ISLAND
MACKINAC ISLAND, MICHIGAN**

FINANCIAL STATEMENTS

MARCH 31, 2006

CITY OF MACKINAC ISLAND

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CITY OF MACKINAC ISLAND

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INDEPENDENT AUDITORS' REPORT

July 19, 2006

Members of the City Council
City of Mackinac Island
Mackinac Island, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the ***City of Mackinac Island***, (the "City"), as of and for the year ended March 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of March 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 through 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

Management's Discussion and Analysis

As management of the **City of Mackinac Island**, (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended March 31, 2006.

Financial Highlights

- The total assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$15,799,380 (*net assets*). Of this amount, \$644,711 (*unrestricted net assets*) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by \$661,468.
- The City repaid \$236,830 of long-term debt during the current fiscal year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$140,483, or 7.2% of total General Fund expenditures and transfers out.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., compensated absences).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges for services (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, health and welfare, and recreation and culture. The business-type activities of the City include water and sewer and landfill.

The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be the major fund. Data from the other 13 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with the General Fund budget.

The basic governmental funds financial statements can be found on pages 12-16 of this report.

Proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its water and sewer and landfill operations.

The basic proprietary fund financial statements can be found on pages 17-20 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 21 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22-35 of this report.

Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes. Combining and individual fund statements and schedules can be found on pages 36-46 of this report.

Government-wide Financial Analysis - Primary Government

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$15,799,380 at the close of fiscal 2006.

A large portion of the City's net assets (92%) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, water and sewer systems, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (4%) may be used to meet the government's ongoing obligations to citizens and creditors.

City of Mackinac Island Condensed Statement of Net Assets March 31, 2006

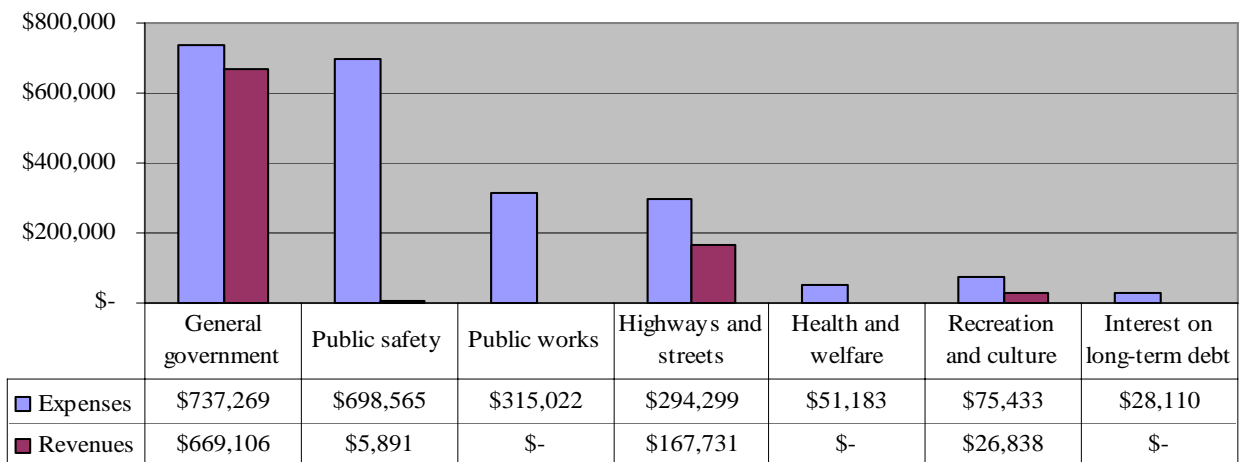
	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Cash and other assets	\$ 1,013,115	\$ 987,881	\$ 445,681	\$ 778,621	\$ 1,458,796	\$ 1,766,502
Capital assets, net of accumulated depreciation	<u>5,493,127</u>	<u>5,543,446</u>	<u>12,603,861</u>	<u>13,225,498</u>	<u>18,096,988</u>	<u>18,768,944</u>
Total assets	<u>6,506,242</u>	<u>6,531,327</u>	<u>13,049,542</u>	<u>14,004,119</u>	<u>19,555,784</u>	<u>20,535,446</u>
Liabilities						
Current and other liabilities	269,170	154,749	152,453	308,461	421,623	463,210
Long-term debt, net of current portion	<u>449,781</u>	<u>651,388</u>	<u>2,885,000</u>	<u>2,960,000</u>	<u>3,334,781</u>	<u>3,611,388</u>
Total liabilities	<u>718,951</u>	<u>806,137</u>	<u>3,037,453</u>	<u>3,268,461</u>	<u>3,756,404</u>	<u>4,074,598</u>
Net assets						
Invested in capital assets, net of related debt	\$ 4,861,004	\$ 4,827,673	\$ 9,643,861	\$10,130,498	\$14,504,865	\$14,958,171
Restricted	299,804	299,296	350,000	350,000	649,804	649,296
Unrestricted	<u>626,483</u>	<u>598,221</u>	<u>18,228</u>	<u>255,160</u>	<u>644,711</u>	<u>853,381</u>
Total net assets	<u>\$ 5,787,291</u>	<u>\$ 5,725,190</u>	<u>\$10,012,089</u>	<u>\$10,735,658</u>	<u>\$15,799,380</u>	<u>\$16,460,849</u>

City of Mackinac Island
Condensed Statement of Changes in Net Assets
For the Year Ended March 31, 2006

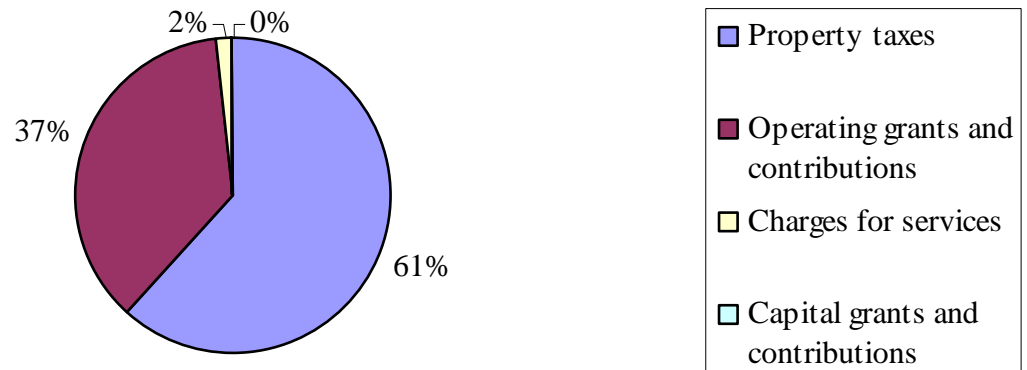
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Revenues						
Program revenues						
Charges for services	\$ 39,765	\$ 22,920	\$ 1,495,857	\$ 1,271,329	\$ 1,535,622	\$ 1,294,249
Operating grants and contributions	829,801	767,133	-	-	829,801	767,133
Capital grants and contributions	-	51,083	-	-	-	51,083
General revenues						
Property taxes	1,392,416	1,295,806	-	-	1,392,416	1,295,806
Other	-	-	126,256	44,640	126,256	44,640
Total revenues	<u>2,261,982</u>	<u>2,136,942</u>	<u>1,622,113</u>	<u>1,315,969</u>	<u>3,884,095</u>	<u>3,452,911</u>
Expenses						
General government	737,269	737,091	-	-	737,269	737,091
Public safety	698,565	682,022	-	-	698,565	682,022
Public works	315,022	283,374	-	-	315,022	283,374
Highways and streets	294,299	288,752	-	-	294,299	288,752
Health and welfare	51,183	38,984	-	-	51,183	38,984
Recreation and culture	75,433	122,208	-	-	75,433	122,208
Interest on long-term debt	28,110	32,840	-	-	28,110	32,840
DPW	-	-	2,345,682	2,380,062	2,345,682	2,380,062
Total expenses	<u>2,199,881</u>	<u>2,185,271</u>	<u>2,345,682</u>	<u>2,380,062</u>	<u>4,545,563</u>	<u>4,565,333</u>
Change in net assets	62,101	(48,329)	(723,569)	(1,064,093)	(661,468)	(1,112,422)
Net assets – beginning of year, as restated	<u>5,725,190</u>	<u>5,773,519</u>	<u>10,753,658</u>	<u>11,799,751</u>	<u>16,460,848</u>	<u>17,573,270</u>
Net assets – end of year	<u>\$ 5,787,291</u>	<u>\$ 5,725,190</u>	<u>\$10,012,089</u>	<u>\$10,735,658</u>	<u>\$15,799,380</u>	<u>\$16,460,848</u>

Governmental activities. Governmental activities increased the City's net assets by \$62,101.

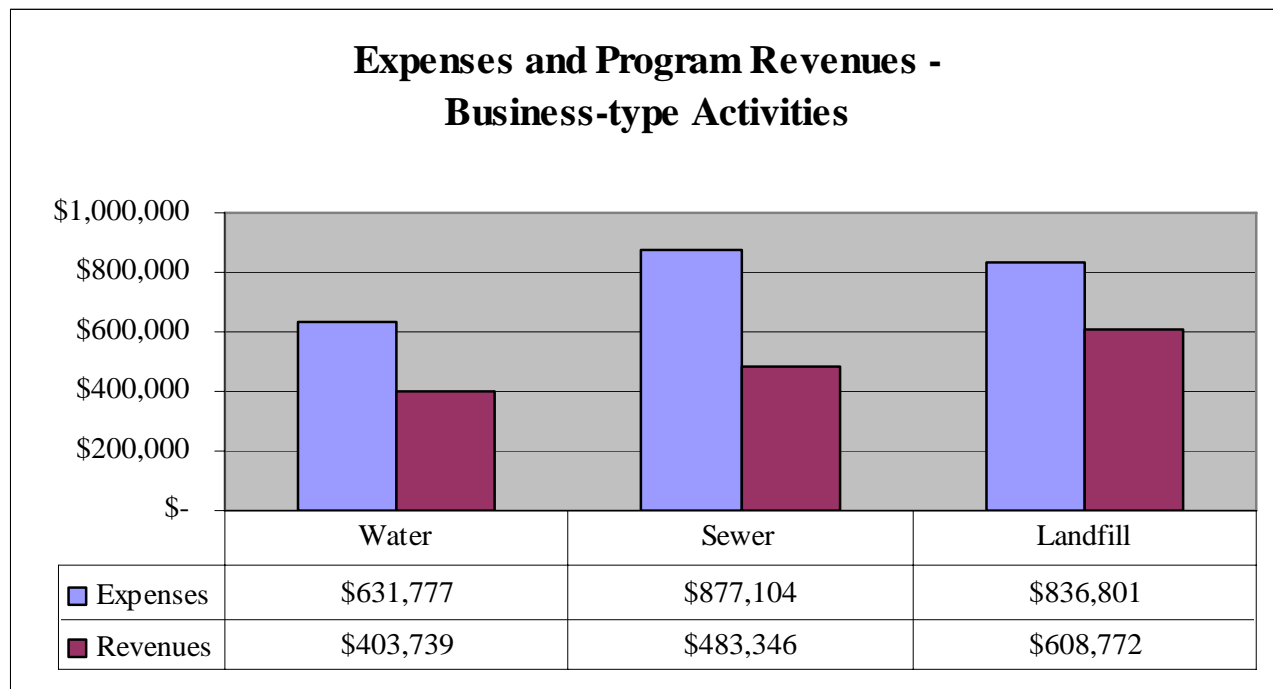
Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Business-type activities. Business-type activities decreased the City's net assets by \$723,569 (\$1,064,093 in 2005). This decrease is mainly attributable to an increase in expenditures and no increase in user fees in prior years. Rate increases were initiated in 2006 and planned increases in fiscal 2007 combined with a one mill allocation to enterprise fund revenues have been implemented to reduce these decreases in net assets.



Substantially all revenues for the business-type activities resulted from charges for services.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year 2006, the City's governmental funds reported combined ending fund balances of \$953,702, an increase of \$29,661. *Unreserved fund balance* of \$653,898 is available for spending at the City's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

Proprietary funds. The City's *proprietary funds* provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the DPW at the end of the year amounted to \$18,228. The DPW had a decrease in net assets for the year of \$723,569. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

Budgetary Highlights

General Fund. During the year, General Fund revenues and expenditures were under budgeted amounts. The end result was an increase of fund balance of \$30,752 compared to a budgeted increase of zero.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business-type activities as of March 31, 2006, amounted to \$18,096,988 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, infrastructure, water and sewer system, vehicles and equipment.

Additional information on the City's capital assets can be found in Note 3C on pages 30-31 of this report.

The City did not have any major capital asset acquisitions during the current year.

Long-term debt. At March 31, 2006, the City had total debt outstanding of \$3,613,487. Of this amount, \$653,488 is comprised of debt backed by the full faith and credit of the City. The remainder of the City's bonded debt represents bonds secured solely by specified revenue sources.

Additional information on the City's long-term debt can be found in Note 3F on pages 33-35 of this report.

Economic Factors and Fiscal 2006-2007 Budgets and Rates

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- The contemplated sale of Rowe House Condominiums, proceeds of which will be received by the General Fund.
- Repair and maintenance costs of approximately \$375,000 to repair the membranes at the Water Treatment Plant.
- Water and sewer rate increases of 50% in June 1, 2006 and 25% on June 1, 2007 to offset previous operating losses.
- A one mill tax levy for the enterprise funds.
- A 50% increase in the landfill debris tag fees.

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Mayor's assistant, PO Box 455, Mackinac Island, Michigan 49757.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND

STATEMENT OF NET ASSETS

MARCH 31, 2006

	Governmental Activities	Business-type Activities	Total
Assets			
Cash and cash equivalents	\$ 581,908	\$ -	\$ 581,908
Receivables, net	152,054	350,945	502,999
Internal balances	44,972	(44,972)	-
Restricted cash	109,181	130,129	239,310
Restricted investments	125,000	9,579	134,579
Capital assets not being depreciated	18,180	-	18,180
Capital assets being depreciated, net	5,474,947	12,603,861	18,078,808
Total assets	6,506,242	13,049,542	19,555,784
Liabilities			
Accounts payable and accrued expenses	65,463	77,453	142,916
Long-term liabilities			
Due within one year	107,877	75,000	182,877
Due in more than one year	545,611	2,885,000	3,430,611
Total liabilities	718,951	3,037,453	3,756,404
Net assets			
Invested in capital assets, net of related debt	4,861,004	9,643,861	14,504,865
Restricted			
Perpetual care	118,602	-	118,602
Capital outlay	89,452	-	89,452
Debt service	91,750	350,000	441,750
Unrestricted	626,483	18,228	644,711
Total net assets	\$ 5,787,291	\$ 10,012,089	\$ 15,799,380

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 737,269	\$ 31,193	\$ 637,913	\$ -
Public safety	698,565	-	5,891	-
Public works	315,022	-	-	-
Highways and streets	294,299	-	167,731	-
Health and welfare	51,183	-	-	-
Recreation and culture	75,433	8,572	18,266	-
Interest on long-term debt	28,110	-	-	-
Total governmental activities	2,199,881	39,765	829,801	-
Business-type activities				
Department of Public Works				
Water	631,777	403,739	-	-
Sewer	877,104	483,346	-	-
Landfill	836,801	608,772	-	-
Total business-type activities	2,345,682	1,495,857	-	-
Total	\$ 4,545,563	\$ 1,535,622	\$ 829,801	\$ -

General revenues

Property taxes
Other

Total general revenues

Change in net assets

Net assets, beginning of year

Net assets, end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (68,163)	\$ -	\$ (68,163)
(692,674)	-	(692,674)
(315,022)	-	(315,022)
(126,568)	-	(126,568)
(51,183)	-	(51,183)
(48,595)	-	(48,595)
(28,110)	-	(28,110)
(1,330,315)	-	(1,330,315)
-	(228,038)	(228,038)
-	(393,758)	(393,758)
-	(228,029)	(228,029)
-	(849,825)	(849,825)
(1,330,315)	(849,825)	(2,180,140)
1,392,416	-	1,392,416
-	126,256	126,256
1,392,416	126,256	1,518,672
62,101	(723,569)	(661,468)
5,725,190	10,735,658	16,460,848
\$ 5,787,291	\$ 10,012,089	\$ 15,799,380

FUND FINANCIAL STATEMENTS

CITY OF MACKINAC ISLAND

BALANCE SHEET GOVERNMENTAL FUNDS

MARCH 31, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 55,986	\$ 525,922	\$ 581,908
Accounts receivable	12,097	-	12,097
Taxes receivable	123,976	4,880	128,856
Due from other funds	60,437	52,000	112,437
Due from other governmental units	6,400	4,701	11,101
Restricted cash and cash equivalents	-	109,181	109,181
Restricted investments	-	125,000	125,000
Total assets	<u>\$ 258,896</u>	<u>\$ 821,684</u>	<u>\$ 1,080,580</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 49,766	\$ 383	\$ 50,149
Accrued expenses	7,647	1,617	9,264
Due to other funds	61,000	6,465	67,465
Total liabilities	<u>118,413</u>	<u>8,465</u>	<u>126,878</u>
Fund balances			
Reserved			
Capital outlay	-	89,452	89,452
Debt service	-	91,750	91,750
Perpetual care	-	118,602	118,602
Unreserved			
Designated			
Capital outlay	-	476,929	476,929
Undesignated	140,483	-	140,483
Undesignated, reported in nonmajor			
Special revenue funds	-	36,486	36,486
Total fund balances	<u>140,483</u>	<u>813,219</u>	<u>953,702</u>
Total liabilities and fund balances	<u>\$ 258,896</u>	<u>\$ 821,684</u>	<u>\$ 1,080,580</u>

Continued...

CITY OF MACKINAC ISLAND

BALANCE SHEET GOVERNMENTAL FUNDS

MARCH 31, 2006

Reconciliation of fund balances on the balance sheet for governmental activities to the statement of net assets

Fund balances - total governmental funds	\$ 953,702
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, not reported in the funds.

Add: capital assets	7,225,866
Subtract: accumulated depreciation	(1,732,739)

Certain liabilities are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds and notes payable	(632,123)
Subtract: compensated absences	(21,365)
Subtract: accrued interest on long-term liabilities	(6,050)

Net assets of governmental activities	<u>\$ 5,787,291</u>
--	----------------------------

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
Revenues			
Taxes	\$ 1,332,781	\$ 59,635	\$ 1,392,416
Licenses and permits	426,219	-	426,219
Federal revenue	-	747	747
State revenue	46,554	168,186	214,740
Charges for services	-	39,765	39,765
Fines and forfeits	5,906	6,780	12,686
Rents and royalties	15,074	-	15,074
Interest and dividends	28,590	28,166	56,756
Contributions	18,906	32,221	51,127
Miscellaneous	97,083	-	97,083
Total revenues	1,971,113	335,500	2,306,613
Expenditures			
Legislative	34,038	-	34,038
General government	451,825	16,365	468,190
Public safety	735,039	-	735,039
Public works	215,999	368,861	584,860
Culture and recreation	44,358	48,664	93,022
Other functions	185,790	-	185,790
Capital improvements	-	44,864	44,864
Debt service			
Principal payments	-	101,830	101,830
Interest and paying agent fees	-	29,319	29,319
Total expenditures	1,667,049	609,903	2,276,952
Revenues over (under) expenditures	304,064	(274,403)	29,661
Other financing sources (uses)			
Transfers in	12,732	306,127	318,859
Transfers out	(286,044)	(32,815)	(318,859)
Total other financing (uses) sources	(273,312)	273,312	-
Net change in fund balance	30,752	(1,091)	29,661
Fund balances, beginning of year	109,731	814,310	924,041
Fund balances, end of year	\$ 140,483	\$ 813,219	\$ 953,702

Continued...

CITY OF MACKINAC ISLAND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2006

**Reconciliation of statement of revenues, expenditures and changes in fund balances
of governmental funds to statement of activities**

Net change in fund balances - total governmental funds	\$ 29,661
--	-----------

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add: assets capitalized during current year	158,209
Subtract: disposal of assets	(13,771)
Subtract: depreciation expense	(212,938)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term liabilities in the statement of net assets .

Add: principal payments on long-term liabilities	101,830
--	---------

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Add: decrease in accrued interest on bonds	1,209
Subtract: increase in the accrual of compensated absences	(2,099)

Change in net assets of governmental activities	<u>\$ 62,101</u>
--	-------------------------

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Revenues				
Taxes	\$ 1,269,440	\$ 1,353,082	\$ 1,332,781	\$ (20,301)
Licenses and permits	404,045	428,851	426,219	(2,632)
State revenues	37,000	46,840	46,554	(286)
Fines and forfeits	2,000	6,630	5,906	(724)
Rents and royalties	28,000	17,274	15,074	(2,200)
Interest and dividends	8,000	25,549	28,590	3,041
Contributions	5,000	18,906	18,906	-
Miscellaneous	31,000	104,418	97,083	(7,335)
Total revenues	1,784,485	2,001,550	1,971,113	(30,437)
Expenditures				
Legislative	35,700	35,075	34,038	1,037
General government	375,825	446,350	451,825	(5,475)
Public safety	599,975	735,767	735,039	728
Public works	227,575	213,500	215,999	(2,499)
Culture and recreation	69,550	45,990	44,358	1,632
Other functions	174,852	238,737	185,790	52,947
Total expenditures	1,483,477	1,715,419	1,667,049	48,370
Revenues over expenditures	301,008	286,131	304,064	17,933
Transfers				
Transfers in	-	12,500	12,732	232
Transfers out	(301,008)	(298,631)	(286,044)	12,587
Total transfers	(301,008)	(286,131)	(273,312)	12,819
Net change in fund balance	-	-	30,752	30,752
Fund balances, beginning of year	109,731	109,731	109,731	-
Fund balances, end of year	\$ 109,731	\$ 109,731	\$ 140,483	\$ 30,752

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF NET ASSETS PROPRIETARY FUND

MARCH 31, 2006

Assets

Current assets

Accounts receivable	\$ 350,945
Due from other funds	9,000
	<hr/>

Total current assets

359,945

Noncurrent assets

Restricted cash	130,129
Restricted investments	9,579
Property, plant and equipment, net of accumulated depreciation	12,603,861
	<hr/>

Total noncurrent assets

12,743,569

Total assets

13,103,514

Liabilities

Current liabilities

Accounts payable	69,230
Accrued expenses	8,223
Due to other funds	53,972
Bonds payable	75,000
	<hr/>

Total current liabilities

206,425

Bonds Payable (net of current portion)

2,885,000

Total liabilities

3,091,425

Net Assets

Invested in capital assets, net of related debt	9,643,861
Restricted	
Debt service	350,000
Unrestricted	18,228
	<hr/>

Total net assets

\$ 10,012,089

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN NET ASSETS - PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2006

Operating revenues	
Charges for services	\$ 763,620
Charges for services pledged as security for revenue bonds	<u>842,402</u>
Total operating revenues	<u>1,606,022</u>
Operating expenses	
Landfill	836,801
Sewer	732,118
Water	<u>610,112</u>
Total operating expenses	<u>2,179,031</u>
Operating loss	<u>(573,009)</u>
Non-operating revenues (expenses)	
Interest revenue	10,793
Interest expense	(166,651)
Other revenue	<u>5,298</u>
Total non-operating expenses	<u>(150,560)</u>
Change in net assets	(723,569)
Net assets, beginning of year, as restated	<u>10,735,658</u>
Net assets, end of year	<u><u>\$ 10,012,089</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

STATEMENT OF CASH FLOWS PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2006

<hr/>	
Cash flows from operating activities	
Cash collected from customers	\$ 1,648,873
Cash paid for employee wages and benefits	(580,556)
Cash paid for other operating and administrative expenses	(937,909)
	<hr/>
Net cash used in operating activities	130,408
	<hr/>
Cash flows from non-capital financing activities	
Other revenue	5,298
	<hr/>
Cash flows from capital and related financing activities	
Purchase of property, plant and equipment	(14,512)
Principal paid on bonds	(135,000)
Interest expense	(251,764)
	<hr/>
Net cash used in capital and related financing activities	(401,276)
	<hr/>
Cash flows from investing activities	
Sale of investments	152,212
Interest earnings	10,793
	<hr/>
Net cash provided by investing activities	163,005
	<hr/>
Net decrease in cash and cash equivalents	(102,565)
	<hr/>
Cash and cash equivalents, including restricted, beginning of year	232,694
	<hr/>
Cash and cash equivalents, including restricted, end of year	130,129
	<hr/>
Restricted cash, end of year	130,129
	<hr/>
Cash and cash equivalents, end of year	\$ -
	<hr/>

Continued...

CITY OF MACKINAC ISLAND

STATEMENT OF CASH FLOWS PROPRIETARY FUND

FOR THE YEAR ENDED MARCH 31, 2006

**Reconciliation of operating loss to
net cash provided by (used in) operating activities**

Cash flows from operating activities

Operating loss	\$ (573,009)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	636,149
Changes in operating assets and liabilities which provided (used) cash	
Accounts receivable	42,851
Accounts payable	(8,850)
Accrued expenses	(2,045)
Due to other funds	35,312

Net cash used in operating activities

\$ 130,408

Concluded

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND
STATEMENT OF FIDUCIARY NET ASSETS

MARCH 31, 2006

Assets	
Cash and cash equivalents	<u><u>\$ 56,629</u></u>
Liabilities	
Accounts payable	<u><u>\$ 56,629</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the *City of Mackinac Island* (the “City”). The component unit discussed below is included in the City’s reporting entity because of the significance of its operational or financial relationship with the City.

Fire Hall Building Authority - The Fire Hall Building Authority is a blended component unit of the City of Mackinac Island.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from the accompanying financial statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements. The fund financial statements provide information about the City’s funds, including its fiduciary funds. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The *General Fund*, major governmental fund, is the City’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Department of Public Works* (the “DPW”), major enterprise fund, accounts for the activities of the City’s water distribution, water treatment, sewage disposal, sewage treatment systems and landfill.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Additionally, the City reports the following fund types:

The *Special Revenue Funds* account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

The *Debt Service Funds* account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* accounts for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

The *Permanent Trust Fund* accounts for the resources accumulated and restricted for perpetual care at the City's cemetery.

The *Agency Funds* account for assets held for other governments and employees in an agency capacity.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation.

Government-wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, except for agency funds which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized as revenue in the fiscal year in which all eligibility requirements imposed by the provider have been satisfied.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Governmental Fund Financial Statements. Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when both measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty (60) days of the end of the current fiscal period. Property taxes, state shared revenue and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

All governmental and business-type activities and enterprise funds of the City follow private-sector standards of accounting and financial reporting issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds, are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

D. Assets, Liabilities and Net Assets or Equity

1. *Deposits and Investments*

The City maintains a cash pool for substantially all of the City's governmental funds. Each fund's portion of the cash pool is displayed on the statement of net assets/balance sheet as "Cash and cash equivalents". The debt service and trust and agency funds cash resources are invested separately as required by law.

The City's cash and cash equivalents are considered to be cash on hand and demand deposits.

State statutes authorizes the City to deposit in the accounts of federally insured banks, credit unions and savings and loan associations and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

The City's investments during the year consisted of certificate of deposits with original maturities of more than three months.

2. *Receivables and Payables*

All receivables are reported at their gross value.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. *Property Taxes*

The City's property taxes are levied each July 1 and December 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through February 28; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Mackinac County. Assessed values, as established annually by the City and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value.

Property taxes are recognized in the fiscal year in which they are levied.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

4. *Restricted Assets*

Certain resources are set aside for repayment of the City's DPW Enterprise Fund revenue bonds, general obligation note payable and capital improvements, and are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

5. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, water and wastewater system and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Because the City is considered a phase 3 government for GASB 34 implementation requirements, the City is not required to report infrastructure retrospectively; therefore, the City has elected to report infrastructure retrospectively to the extent that there is related outstanding debt. All future infrastructure will be capitalized.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Years</u>
Land improvements	15
Buildings and building improvements	35-40
Water and wastewater system infrastructure	7-75
Machinery and equipment	3-40
Infrastructure	40
Book collection	3

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

6. *Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental funds report the face amount of debt issued as other financing sources.

7. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department and line item. The legal level of budgetary control adopted by the City Council is the function level which is the level at which expenditures may not exceed appropriations. Budget amendments require the approval of the City Council.

B. Excess of Expenditures Over Appropriations in Budgetary Funds

P.A. 621 of 1978 as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on the functional basis. The approved budgets of the City for the budgetary funds were adopted at the function level for the General Fund and each special revenue fund.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Expenditures in the General Fund in excess of budget are as follows:

	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Negative Variance</u>
General government	\$ 446,350	\$ 451,825	\$ 5,475
Public works	213,500	215,999	2,499

3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Cash and cash equivalents and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets is as follows:

Statement of Net Assets

Cash and cash equivalents	\$ 581,908
Restricted cash	239,310
Restricted investments	<u>134,579</u>

Total Statement of Net Assets **955,797**

Statement of Fiduciary Net Assets

Cash and cash equivalents	<u>56,629</u>
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Total **\$ 1,012,426**

A reconciliation of cash and investments as shown in the financial statements to the City's deposits and investments is as follows:

Bank deposits (checking accounts and savings accounts)	\$ 887,517
Investments (CDs)	134,579
Cash on hand	<u>330</u>

Total deposits and investments **\$ 1,012,426**

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Investment and deposit risk

Interest Rate Risk. State law limits the allowable investments and the maturities of some of the allowable investments as identified in the following list of authorized investments. The City's investment policy does not have specific limits in excess of state law on investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. The City's investment policy does not have specific limits in excess of state law on investment credit risk. The City has no investments for which ratings are required.

Custodial credit risk deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of year end, \$814,165 of the City's bank balance of \$1,102,440 was exposed to custodial credit risk because it was uninsured and uncollateralized.

The City is authorized by statute to invest surplus funds in the following:

- a. Bonds, securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts or depository receipts or a qualified financial institution.
- c. Commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and that matures not more than 270 days after the date of purchase.
- d. Bankers acceptances of United States banks.
- e. Obligations of the State of Michigan and its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
- f. Mutual funds registered under the Investment Company Act of 1940, limited to mutual fund securities whose intention is to maintain a net asset value of \$1.00 per share.
- g. External investment pools as authorized by Public Act 20 as amended through 12/31/97.

The City Council is authorized to designate depositories for City funds, and to determine that the funds are invested in accordance with State of Michigan statutory authority.

The City's deposits are in accordance with statutory authority.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

B. Receivables

The composition of receivables is as follows as of March 31, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts receivable	\$ 12,097	\$ 59,397
Taxes receivable	128,856	-
Due from other governmental units	11,101	-
Impact fees due within one year	-	24,000
Impact fees due in greater than one year	<u>-</u>	<u>267,548</u>
Total receivables	<u>\$ 152,054</u>	<u>\$ 350,945</u>

C. Capital assets

Capital assets activity was as follows for the year ended March 31, 2006:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated – land	\$ 18,180	\$ -	\$ -	\$ 18,180
Capital assets being depreciated				
Buildings	5,209,289	12,458	-	5,221,747
Equipment	627,308	79,227	(39,710)	666,825
Infrastructure	1,252,589	44,864	-	1,297,453
Book collection	<u>-</u>	<u>21,660</u>	<u>-</u>	<u>21,660</u>
Total capital assets being depreciated	<u>7,089,186</u>	<u>158,209</u>	<u>(39,710)</u>	<u>7,207,685</u>
Less accumulated depreciation on				
Buildings	(1,226,090)	(130,491)	-	(1,356,581)
Equipment	(131,761)	(38,702)	25,939	(144,524)
Infrastructure	(187,889)	(31,969)	-	(219,858)
Book collection	<u>-</u>	<u>(11,775)</u>	<u>-</u>	<u>(11,775)</u>
Total accumulated depreciation	<u>(1,545,740)</u>	<u>(212,937)</u>	<u>25,939</u>	<u>(1,732,738)</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Total capital assets being depreciated, net	\$ 5,543,446	\$ (54,728)	\$ (13,771)	\$ 5,474,947
Governmental activities capital assets, net	<u>\$ 5,561,626</u>	<u>\$ (54,728)</u>	<u>\$ (13,771)</u>	<u>\$ 5,493,127</u>
Business-type activities				
Capital assets being depreciated				
Buildings	\$ 1,100,001	\$ -	\$ -	\$ 1,100,001
Water and sewer system	18,728,263	-	-	18,728,263
Machinery and equipment	<u>2,990,004</u>	<u>14,512</u>	<u>-</u>	<u>3,004,516</u>
Total capital assets being depreciated	<u>22,818,268</u>	<u>14,512</u>	<u>-</u>	<u>22,832,780</u>
Less accumulated depreciation for				
Buildings	(412,849)	(31,375)	-	(444,224)
Water and sewer system	(7,438,495)	(464,744)	-	(7,903,239)
Machinery and equipment	<u>(1,741,426)</u>	<u>(140,030)</u>	<u>-</u>	<u>(1,881,456)</u>
Total accumulated depreciation	<u>(9,592,770)</u>	<u>(636,149)</u>	<u>-</u>	<u>(10,228,919)</u>
Business-type activities capital assets, net	<u>\$ 13,225,498</u>	<u>\$ (621,637)</u>	<u>\$ -</u>	<u>\$ 12,603,861</u>

Depreciation expense was charged to functions/programs of the City as follows:

Governmental activities	
General government	\$ 68,311
Public safety	70,800
Public works	36,386
Health and welfare	7,645
Recreation and culture	<u>29,796</u>
Total depreciation expense – governmental activities	<u>\$ 212,938</u>
Business-type activities	
Water	\$ 256,695
Sewer	254,262
Landfill	<u>125,191</u>
Total depreciation expense – business-type activities	<u>\$ 636,148</u>

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

D. Accounts Payable and Accrued Expenses

The composition of accounts payable and accrued expenses is as follows at March 31, 2006:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Accounts payable	\$ 50,149	\$ 69,230
Accrued expenses	<u>15,314</u>	<u>8,223</u>
Total accounts payables and accrued expenses	<u>\$ 65,463</u>	<u>\$ 77,453</u>

E. Interfund Receivables, Payables and Transfers

Interfund balances consisted of the following as of March 31, 2006:

<u>Receivable fund</u>	<u>Payable fund</u>			<u>Total</u>
	<u>General Fund</u>	<u>DPW</u>	<u>Nonmajor Governmental Fund</u>	
General Fund	\$ -	\$ 53,972	\$ 6,465	\$ 60,437
Capital Outlay	50,000	-	-	50,000
DPW	9,000	-	-	9,000
Nonmajor governmental fund	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>2,000</u>
Total	<u>\$ 61,000</u>	<u>\$ 53,972</u>	<u>\$ 6,465</u>	<u>\$ 121,437</u>

<u>Transfers out</u>	<u>Transfers in</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	
General Fund	\$ -	\$ 286,144	\$ 286,144
Nonmajor governmental funds	<u>12,732</u>	<u>20,083</u>	<u>32,815</u>
Total	<u>\$ 12,732</u>	<u>\$ 306,227</u>	<u>\$ 318,959</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Transfers are used to (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them, (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

F. Long-term Debt

A summary of long-term debt and transactions related thereto is as follows for the year ended March 31, 2006:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Ending Balance</u>	<u>Due Within 1 Year</u>
Governmental activities					
Fire truck installment loan payable to National City Bank due in annual installments of \$41,830 including interest charged at 2.99% through fiscal 2014.	\$ 303,953	\$ -	\$ (31,830)	\$ 272,123	\$ 32,877
1997 Building Authority Bonds payable to First National Bank of St. Ignace, due in annual principal installments ranging from \$60,000 to \$75,000, interest ranging from 4.80% - 4.95% due in semi-annual installments through fiscal 2010.	320,000	-	(55,000)	265,000	60,000

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance March 31, 2006</u>	<u>Due Within 1 Year</u>
1999 Michigan Transportation Fund Bonds payable to Michigan Transportation Fund, due in annual principal installments ranging from \$15,000 to \$20,000, interest ranging from 4.8% - 5.1% due in semi-annual installments through fiscal 2011.	\$ 110,000	\$ -	\$ (15,000)	\$ 95,000	\$ 15,000
Accrued compensated absences.	<u>19,266</u>	<u>2,099</u>	<u>-</u>	<u>21,365</u>	<u>-</u>
Total governmental activities	<u>753,219</u>	<u>2,099</u>	<u>(101,830)</u>	<u>653,488</u>	<u>107,877</u>
Business-type activities					
5.5% revenue bonds payable to mBank (formerly North Country Bank & Trust), due in annual principal installments ranging from \$75,000 to \$215,000, interest due in semi-annual installments through fiscal 2028.	<u>3,095,000</u>	<u>-</u>	<u>(135,000)</u>	<u>2,960,000</u>	<u>75,000</u>
Total long-term debt	<u>\$3,848,219</u>	<u>\$ 2,099</u>	<u>\$ (236,830)</u>	<u>\$3,613,488</u>	<u>\$ 182,877</u>

For the governmental activities, compensated absences are generally liquidated by the general fund.

CITY OF MACKINAC ISLAND

NOTES TO FINANCIAL STATEMENTS

Annual debt service requirements to maturity for the above obligations except for the liability for accrued compensated absences is as follows:

	Governmental activities		Business-type activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 107,877	\$ 24,813	\$ 75,000	\$ 162,800
2008	118,959	19,865	75,000	158,675
2009	120,076	14,589	80,000	154,550
2010	131,230	8,981	85,000	150,150
2011-2015	153,981	10,592	500,000	675,125
2016-2020	-	-	665,000	520,300
2021-2025	-	-	875,000	316,250
2026-2028	-	-	605,000	65,450
	<u>\$ 632,123</u>	<u>\$ 78,840</u>	<u>\$2,960,000</u>	<u>\$2,203,300</u>

Total interest expense for the City for the year was approximately \$196,000.

The City's revenue bonds include covenants requiring the City to maintain cash reserve accounts totaling approximately \$299,000. At March 31, 2006, the City's Enterprise Fund was under-reserved by approximately \$298,000.

On July 12, 2006, the City issued a \$3 million City of Mackinac Island, Sanitary Sewage Disposal and Water Supply System Revenue Refunding Bond, Series 2006. Proceeds from the bond issue were transferred to mBank in the principal amount of \$2.96 million plus \$59,321 in accrued interest. The cash flow requirements necessary to service the debt payments is expected to decrease by approximately \$262,000 and an economic gain of approximately \$180,000 was recognized.

4. OTHER INFORMATION

Risk Management and Litigation

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which it obtains coverage from commercial insurance companies. The City has had no settled claims resulting from these risks that exceeded their commercial coverage in any of the past three fiscal years.

SUPPLEMENTARY INFORMATION

CITY OF MACKINAC ISLAND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Legislative				
City council	\$ 35,700	\$ 35,075	\$ 34,038	\$ 1,037
General government				
Elections	4,000	1,500	1,234	266
Professional services	162,000	224,000	226,193	(2,193)
Assessor	36,075	39,500	40,156	(656)
Clerk	27,500	24,100	25,243	(1,143)
Treasurer	31,600	25,000	25,264	(264)
Board of review	550	550	-	550
City hall and other property	114,100	131,700	133,735	(2,035)
Total general government	375,825	446,350	451,825	(5,475)
Public safety				
Police department	421,200	519,850	528,924	(9,074)
Fire department	54,575	50,525	42,920	7,605
Ambulance	30,000	94,435	94,373	62
Traffic greeters	40,000	31,457	31,541	(84)
Zoning	500	500	-	500
Planning commission	38,700	24,000	22,281	1,719
Medical center	15,000	15,000	15,000	-
Total public safety	599,975	735,767	735,039	728
Public works				
Street lighting	24,000	14,000	14,040	(40)
Other	203,575	199,500	201,959	(2,459)
Total public works	227,575	213,500	215,999	(2,499)
Culture and recreation				
Recreation department	44,200	41,940	40,681	1,259
Parks	25,350	4,050	3,677	373
Total culture and recreation	69,550	45,990	44,358	1,632

Continued...

CITY OF MACKINAC ISLAND

SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES BUDGET AND ACTUAL GENERAL FUND

FOR THE YEAR ENDED MARCH 31, 2006

	Original Budget	Final Amended Budget	Actual	Variance With Final Amended Budget Positive (Negative)
Other functions				
Fly control	\$ 5,000	\$ 2,300	\$ 2,034	\$ 266
Insurance	161,000	207,773	183,756	24,017
Other	8,852	28,664	-	28,664
Total other functions	174,852	238,737	185,790	52,947
Total expenditures	1,483,477	1,715,419	1,667,049	48,370
Transfers				
Transfers in	-	12,500	12,732	(232)
Transfers out	(301,008)	(298,631)	(286,044)	12,587
Total transfers	(301,008)	(286,131)	(273,312)	12,355
Total expenditures and transfers	\$ 1,784,485	\$ 2,001,550	\$ 1,940,361	\$ 36,015

Concluded

CITY OF MACKINAC ISLAND
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

MARCH 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Fund	Permanent Trust Funds	Total
ASSETS					
Cash and cash equivalents	\$ 31,785	\$ -	\$ 375,535	\$ 118,602	\$ 525,922
Taxes receivable	-	3,486	1,394	-	4,880
Due from other funds	2,000	-	50,000	-	52,000
Due from other governmental units	4,701	-	-	-	4,701
Restricted cash and cash equivalents	14,452	94,729	-	-	109,181
Restricted investments	75,000	-	50,000	-	125,000
Total assets	\$ 127,938	\$ 98,215	\$ 476,929	\$ 118,602	\$ 821,684
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 383	\$ -	\$ -	\$ -	\$ 383
Accrued expenses	1,617	-	-	-	1,617
Due to other funds	-	6,465	-	-	6,465
Total liabilities	2,000	6,465	-	-	8,465
Fund balances					
Reserved					
Capital outlay	89,452	-	-	-	89,452
Debt service	-	91,750	-	-	91,750
Perpetual care	-	-	-	118,602	118,602
Unreserved					
Designated	-	-	476,929	-	476,929
Undesignated	36,486	-	-	-	36,486
Total fund balances	125,938	91,750	476,929	118,602	813,219
Total liabilities and fund balances	\$ 127,938	\$ 98,215	\$ 476,929	\$ 118,602	\$ 821,684

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED MARCH 31, 2006

	Special Revenue Funds	Debt Service Funds	Capital Project Funds	Permanent Trust Funds	Total
Revenues					
Taxes	\$ -	\$ 42,614	\$ 17,021	\$ -	\$ 59,635
Federal revenue	747	-	-	-	747
State revenue	168,186	-	-	-	168,186
Charges for services	19,465	-	-	20,300	39,765
Fines and forfeits	6,780	-	-	-	6,780
Interest and dividends	1,426	4,093	17,770	4,877	28,166
Contributions	32,221	-	-	-	32,221
Total revenues	228,825	46,707	34,791	25,177	335,500
Expenditures					
General government	16,365	-	-	-	16,365
Public works	368,861	-	-	-	368,861
Culture and recreation	48,664	-	-	-	48,664
Capital improvements	-	-	44,864	-	44,864
Debt service					
Principal payments	-	101,830	-	-	101,830
Interest and paying agent fees	-	29,319	-	-	29,319
Total expenditures	433,890	131,149	44,864	-	609,903
Revenues over (under) expenditures	(205,065)	(84,442)	(10,073)	25,177	(274,403)
Transfers					
Transfers in	244,214	61,913	-	-	306,127
Transfers out	(20,083)	-	(12,732)	-	(32,815)
Total transfers	224,131	61,913	(12,732)	-	273,312
Net change in fund balances	19,066	(22,529)	(22,805)	25,177	(1,091)
Fund balances, beginning of year	106,872	114,279	499,734	93,425	814,310
Fund balances, end of year	\$ 125,938	\$ 91,750	\$ 476,929	\$ 118,602	\$ 813,219

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET SPECIAL REVENUE FUNDS

MARCH 31, 2006

	Major Streets	Local Streets	Library
ASSETS			
Cash and cash equivalents	\$ -	\$ -	\$ 31,785
Due from other funds	-	-	860
Due from other governmental units	3,136	1,565	-
Restricted cash and cash equivalents	-	-	14,452
Restricted investments	-	-	75,000
Total assets	\$ 3,136	\$ 1,565	\$ 122,097
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ -	\$ 383
Accrued expenses	-	-	477
Total liabilities	-	-	860
Fund balances			
Reserved - capital outlay	-	-	89,452
Unreserved - undesignated	3,136	1,565	31,785
Total fund balances	3,136	1,565	121,237
Total liabilities and fund balances	\$ 3,136	\$ 1,565	\$ 122,097

<u>Cemetery</u>	<u>Building Department</u>	<u>Total</u>
\$ -	\$ -	\$ 31,785
-	1,140	2,000
-	-	4,701
-	-	14,452
-	-	75,000
<u>\$ -</u>	<u>\$ 1,140</u>	<u>\$ 127,938</u>
\$ -	\$ -	\$ 383
-	1,140	1,617
<u>-</u>	<u>1,140</u>	<u>2,000</u>
-	-	89,452
-	-	36,486
<u>-</u>	<u>-</u>	<u>125,938</u>
<u>\$ -</u>	<u>\$ 1,140</u>	<u>\$ 127,938</u>

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED MARCH 31, 2006

	Major Streets	Local Streets	Library
Revenues			
State revenue	\$ 153,118	\$ 14,613	\$ 455
Federal revenue	-	-	747
Charges for services	-	-	8,572
Fines and forfeits	-	-	6,780
Interest and dividends	-	-	1,426
Contributions	-	-	32,221
Total revenues	153,118	14,613	50,201
Expenditures			
General government	-	-	-
Public works	172,115	122,184	-
Culture and recreation	-	-	48,664
Total expenditures	172,115	122,184	48,664
Revenues (under) over expenditures	(18,997)	(107,571)	1,537
Other financing sources (uses)			
Transfers in	36,292	106,180	21,708
Transfers out	(20,083)	-	-
Total other financing sources (uses)	16,209	106,180	21,708
Net change in fund balances	(2,788)	(1,391)	23,245
Fund balances, beginning of year	5,924	2,956	97,992
Fund balances, end of year	\$ 3,136	\$ 1,565	\$ 121,237

Cemetery	Building Department	Total
\$ -	\$ -	\$ 168,186
-	-	747
-	10,893	19,465
-	-	6,780
-	-	1,426
-	-	32,221
-	10,893	228,825
16,365	-	16,365
-	74,562	368,861
-	-	48,664
16,365	74,562	433,890
(16,365)	(63,669)	(205,065)
16,365	63,669	244,214
-	-	(20,083)
16,365	63,669	224,131
-	-	19,066
-	-	106,872
\$ -	\$ -	\$ 125,938

CITY OF MACKINAC ISLAND

COMBINING BALANCE SHEET DEBT SERVICE FUNDS

MARCH 31, 2006

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	2004 Fire Truck	Total
ASSETS				
Taxes receivable	\$ 3,486	\$ -	\$ -	\$ 3,486
Restricted cash and cash equivalents	94,729	-	-	94,729
Total assets	\$ 98,215	\$ -	\$ -	\$ 98,215
LIABILITIES AND FUND BALANCES				
Liabilities				
Due to other funds	\$ 6,465	\$ -	\$ -	\$ 6,465
Fund balances - reserved	91,750	-	-	91,750
Total liabilities and fund balances	\$ 98,215	\$ -	\$ -	\$ 98,215

CITY OF MACKINAC ISLAND

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES DEBT SERVICE FUNDS

FOR THE YEAR ENDED MARCH 31, 2006

	1997 Building Authority Bonds	1999 Michigan Transportation Fund Bond	2004 Fire Truck	Total
Revenues				
Taxes	\$ 42,614	\$ -	\$ -	\$ 42,614
Interest and dividends	4,093	-	-	4,093
Total revenues	46,707	-	-	46,707
Expenditures				
Principal payments	55,000	15,000	31,830	101,830
Interest and paying agent fees	14,236	5,083	10,000	29,319
Total expenditures	69,236	20,083	41,830	131,149
Revenues under expenditures	(22,529)	(20,083)	(41,830)	(84,442)
Transfers				
Transfers in	-	20,083	41,830	61,913
Net change in fund balance	(22,529)	-	-	(22,529)
Fund balances, beginning of year	114,279	-	-	114,279
Fund balances, end of year	\$ 91,750	\$ -	\$ -	\$ 91,750

CITY OF MACKINAC ISLAND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
TAX COLLECTION AGENCY FUND

FOR THE YEAR ENDED MARCH 31, 2006

	<u>Balance April 1, 2005</u>	<u>Additions</u>	<u>(Deductions)</u>	<u>Balance March 31, 2006</u>
ASSETS				
Cash and cash equivalents	<u>\$ 3,190</u>	<u>\$ 4,385,709</u>	<u>\$ (4,332,270)</u>	<u>\$ 56,629</u>
LIABILITIES				
Due to other funds	\$ 3,190	\$ 1,386,368	\$ (1,381,278)	\$ 8,280
Due to other governmental units	<u>-</u>	<u>2,999,341</u>	<u>(2,950,992)</u>	<u>48,349</u>
Total liabilities	<u>\$ 3,190</u>	<u>\$ 4,385,709</u>	<u>\$ (4,332,270)</u>	<u>\$ 56,629</u>

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2006

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount Outstanding March 31, 2005</u>	<u>Interest Payable if Held to Maturity</u>
Governmental activities bonds					
1997 Building Authority Bond	\$ 630,000	4.80%	6/01/06	\$ 60,000	\$ 11,490
Payments due		4.85	6/01/07	65,000	8,474
Principal and interest - June 1		4.90	6/01/08	65,000	5,305
Interest only - December 1		4.95	6/01/09	75,000	1,856
				<u>265,000</u>	<u>\$ 27,125</u>
1999 Michigan Transportation Fund Bond	\$ 170,000	4.80%	08/01/06	\$ 15,000	\$ 4,370
Payments due		4.90	08/01/07	20,000	3,520
Principal and interest - August 1		5.00	08/01/08	20,000	2,530
Interest only - February 1		5.05	08/01/09	20,000	1,525
		5.10	08/01/10	20,000	510
				<u>95,000</u>	<u>\$ 12,455</u>
Total governmental activities bonded indebtedness				<u><u>\$ 360,000</u></u>	

Continued...

CITY OF MACKINAC ISLAND

SCHEDULE OF INDEBTEDNESS

MARCH 31, 2006

	<u>Original Amount of Issue</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Amount Outstanding March 31, 2005</u>	<u>Interest Payable if Held to Maturity</u>
Business-type activities					
Sanitary Sewage Disposal and Water	\$ 3,350,000	5.50%	03/01/07	\$ 75,000	\$ 162,800
Supply System Revenue Refunding		5.50	03/01/08	75,000	158,675
Bonds, Series 1999		5.50	03/01/09	80,000	154,550
Payments due		5.50	03/01/10	85,000	150,150
Principal and interest - March 1		5.50	03/01/11	90,000	145,475
Interest only - September 1		5.50	03/01/12	95,000	140,525
		5.50	03/01/13	100,000	135,300
		5.50	03/01/14	105,000	129,800
		5.50	03/01/15	110,000	124,025
		5.50	03/01/16	120,000	117,975
		5.50	03/01/17	125,000	111,375
		5.50	03/01/18	135,000	104,500
		5.50	03/01/19	140,000	97,075
		5.50	03/01/20	145,000	89,375
		5.50	03/01/21	155,000	81,400
		5.50	03/01/22	165,000	72,875
		5.50	03/01/23	175,000	63,800
		5.50	03/01/24	185,000	54,175
		5.50	03/01/25	195,000	44,000
		5.50	03/01/26	205,000	33,275
		5.50	03/01/27	215,000	22,000
		5.50	03/01/28	185,000	10,175
Total business-type activities bonded indebtedness				<u>2,960,000</u>	<u>\$ 2,203,300</u>
Total bonded indebtedness				<u>\$ 3,320,000</u>	
Governmental activities notes payable					
2003 Fire truck loan	336,286	2.99%	10/31/06	\$ 32,877	\$ 8,953
		2.99	10/31/07	33,959	7,871
Principal and interest - October 31		2.99	10/31/08	35,076	6,754
Interest only - January 31		2.99	10/31/09	36,230	5,600
		2.99	10/31/10	37,422	4,408
		2.99	10/31/11	38,653	3,177
		2.99	10/31/12	39,925	1,905
		2.99	10/31/13	17,981	592
				<u>\$ 272,123</u>	<u>\$ 39,260</u>

Concluded



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP

An Independent Member of Baker Tilly International

July 19, 2006

Members of the City Council
City of Mackinac Island
Mackinac Island, MI

Through our role in performing financial statement services for the past several years, we have become familiar with your systems, operations and management team. As we work with our clients, we strive to provide direction and constructive feedback to help facilitate their success. The better we get to know you and your objectives, the more we can offer in terms of proactive advice.

In planning and performing our audit of the financial statements of the ***City of Mackinac Island*** for the year ended March 31, 2006, we considered the City's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

The memorandum that accompanies this letter summarizes comments related to reporting responsibilities and other matters of the ***City of Mackinac Island***. This letter does not affect our report dated July 19, 2006 on the financial statements of the ***City of Mackinac Island***.

We have discussed these comments with the management of the City, and we would be pleased to discuss it in further detail at your convenience, to perform any additional study of these matters, and to provide any other assistance that you may request.

If we can be of assistance, we hope you will view us as an integral part of your team.

Thank you for your business!

Encl.1

COMMENTS AND RECOMMENDATIONS

Pre-Numbered Source Documents

City of Mackinac Island Ordinance #197 states that there shall be a impact fee assessed to any user of the water and sewer system at the time the services are first provided, when a user increases their usage by expansion of the property or when there is a change in the type of usage. The City did not have a effective system in place to ensure that all qualifying parcels were assessed and billed on a timely basis.

The weaknesses in the system resulted because the City's zoning permits and building permits are not pre-numbered and were not being accounted for in order. We recommend the City utilize pre-numbered forms for all purposes (zoning permits, building permits, bicycle licenses, business licenses, etc.) so that the documents can be accounted for in order. This will ensure that all appropriate fees are assessed, billed and recorded in the accounting records in the appropriate period.

Enterprise Fund Bond Reserve Requirements

Based on the provisions of the Revenue Bonds recorded in the Enterprise Fund, the City is required to have approximately \$299,000 cash reserved in the City's Enterprise Fund.

As of March 31, 2006, the Enterprise Fund has approximately \$1,000 in the bond reserves and therefore, was under-funded by approximately \$298,000. Management's expectations, based on the allocated tax levy and the raise in user rates, is that these reserves will be replenished by March 31, 2007.

We recommend that the City continue to implement and monitor the plan to generate the addition revenue or reduce costs in the Enterprise Fund as required to re-establish the bond reserve balances necessary to gain compliance with the related bond agreements. Further, the City should continue to monitor the Enterprise Fund cash to ensure that the necessary balances remain reserved and are not used to finance daily operations.

Public Act 51 Road/Street Bank Accounts

The Michigan Department of Treasury requires that the Local and Major Street Funds have a separate bank account used to account for gas and weight taxes used for street and highway repair and maintenance. The City currently holds these funds in pooled cash. We recommend that the City establish and maintain a separate bank account for Local and Major Street Fund cash to comply with the requirements of the Michigan Department of Treasury.

SEC Rule 15C2-12 Disclosure Requirements

SEC Rule No. 240.15c2-12 requires issuers of municipal securities in principal amounts of \$1 million or more or whose outstanding aggregate debt exceeds \$10 million, to report financial and operational information as well as notice of material events to nationally recognized municipal securities information repositories annually. The City is subject to these reporting requirements. We recommend you contact your bond counsel who will generally assist in the preparation and timely submission of the annual disclosures required.

Michigan Finance Qualifying Statement

All governmental units subject to the Revised Municipal Finance Act (PA34 of 2001) must submit a Michigan Finance Qualifying Statement that allows governmental units to be eligible to apply for financing during the fiscal year. The City must submit their qualifying statement electronically using the Michigan Department of Treasurer's website. The Mayor's assistant must contact the Local Audit and Finance Division of the Department of Treasury to establish a password to access the system and electronically submit their qualifying statement. The qualifying statement is due to the Michigan Department of Treasury by September 30, 2006.

Electronically Filing the Financial Statements

The Michigan Department of Treasury has issued Numbered Letter 2005-2 which requires (under the authority of Michigan Compiled Law 141.427(1) that all audits required in accordance with Public Act 2 of 1968 and Public Act 71 of 1919 be submitted electronically to the Treasury in a Portable Document Format (pdf) compatible with Adobe Acrobat. We have provided the necessary information, in this electronic format, to the City Clerk to enable the City to comply. The financial statements must be submitted by September 30, 2006.

Conclusion

As always, it has been a pleasure to provide audit services to the *City of Mackinac Island*. The City's personnel are very conscientious and most helpful. The accounting records were in good order and all audit information requests were satisfied promptly.